

Bird-View Exploration of Internal Controls and Financial Performance of Selected Savings and Credit Co-Operative Societies in Moyo District, Uganda

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ABSTRACT

This article explores internal controls and financial performance of selected savings and credit cooperative societies in Moyo district, Uganda. Utilizing both qualitative and quantitative methodologies, a descriptive cross-sectional research design was employed. The population consists of 56 participants. Data was collected with surveys and interviews. Findings revealed that internal controls are the pillar of any financial institution and SACCOs are not excluded and good financial performance is the motive for having good internal controls implemented in the SACCOs. In spite of the role played by internal controls, SACCOs have continued to face challenges relating to liquidity, profitability, efficiency; in terms of cost per borrower, and alleged malpractices. The above challenges could be attributed to weak internal control system, as this sets a base for misappropriation of organization's resources. It is on this note that the study calls for the implementation of a systematic risk assessment process that identifies, assesses, and mitigates risks. Regularly update risk assessments to adapt to changing circumstances. More so, there is need to maintain effective internal control communication and proper flow of information down, across, and up within all sections of the organization. This includes clear communication of roles and responsibilities. Invest in continuous training and education for SACCO staff and members to ensure they have a strong understanding of internal controls, ethics, and risk management. Develop and regularly update comprehensive policies and procedures that clearly outline internal control processes, responsibilities, and expectations. This can serve as a guide for staff and members and ensure consistency in control activities.

Keywords: Credits, Cooperative societies, Financial performance, Internal controls, Savings.

INTRODUCTION

Savings and Credit Cooperatives (SACCOs) are member owned, used and managed Microfinance institutions (MFIs) whose major objective is to promote savings among its members, and to intermediate savings into loans to enable the members access credit at fair and reasonable interest rates[1]. The majority of the population in the emerging economies is excluded from the formal financial institutions' banking system due to lack of collateral, high transaction costs, high risk of default, low rate of loan recovery, frauds and information opacity[2]. To bridge the financing gap, SACCOs are considered as engines for increased access to affordable credit and other financial services by the active poor[3]. Through increased access to credit, the economically active poor in the emerging

economies are expected to become entrepreneurs and start small and microenterprises. SACCOs are seen as drivers of socio-economic wellbeing for the active poor, but they can only achieve this through a sustainable financial position. Existing literature suggests that there are several factors that drive the financial health of SACCOs in Uganda, but internal control is a key aspect that impacts sustainable financial health. Internal control is a system established by management to safeguard the company's assets and ensure reliable financial reporting. This includes the policies, procedures, and other aspects of the organization put in place by management to ensure efficient business operations and provide reliable financial information. Washington, Adoyo, and Mule[4] recognize that

effective internal control plays a fundamental role in an organization by preventing fraud and errors and minimizing waste. The effectiveness of internal controls can be ensured when they are integrated into the infrastructure of the organization and become part of the very essence of the organization. Hence, management must put in place certain procedures such as segregation of duties, accounting controls, competent staff, etc. to achieve the shareholders' objective of maximizing shareholder wealth. SACCOs in Uganda suffer from poor internal control capacity and operational management. Poor control systems in SACCOs have led to huge investment losses due to fraud and misuse of assets to generate revenue, resulting in huge losses for members and associations. Poor management has also led to

The conceptual view of savings and credit cooperatives (SACCOs)

SACCOs are cooperative financial institutions tasked with mobilizing and storing the savings of local residents while at the same time providing loans to those pursuing the concept of money multiplier [6]. SACCOs around the world have played a key role in bridging the gap between surplus and deficit spending units in the economy by smoothing the flow of funds from one side to the other [7]. SACCOs have brought about economic growth and development around the world by ensuring that community members understand the concepts of financial management and financial literacy, thereby improving people's standard of living [7]. By improving access to credit and efficient provision of savings, the rural and urban poor are able to smooth consumption, build asset bases, develop microenterprises, and better manage risk [8]. To encourage members to actively participate in the cooperative's business activities, SACCOs also need to generate higher financial returns, some of which are distributed to members in the form of dividends [9]. In some African countries, SACCOs are considered as financial institutions competing with commercial banks and community lending programs because they are community-based and therefore mostly concerned with local people. Similarly, the main objective of SACCOs is to generate surplus (profit) and compete in the market for SACCO business, which requires SACCOs to adopt strategies to constantly maintain their level of profitability (AMFIU-Report, 2017/2018). SACCO profitability is mainly determined by the quality of their portfolio [10]. Portfolio quality ensures that SACCOs receive loan payments along with interest at the agreed time. In East Africa, the rapid growth of Savings and Credit Cooperative Organizations (SACCOs) is notable, as the business model has been widely embraced by the local population [11]. To sustain their financial performance and remain competitive, SACCOs are focusing on managing credit-related risks that could affect their profitability

corruption and collusion between management and external auditors, resulting in the organization failing to achieve set targets. Technological changes have also posed challenges to control systems, necessitating the development of new ways to control organizations [5]. Despite the role of internal controls, SACCOs continue to face challenges in terms of liquidity, profitability, efficiency, cost per borrower, and suspected fraudulent activities [2]. The above challenges can be attributed to weak internal control systems which form the basis for misuse of organizational resources. This necessitated this study to carry out an in-depth investigation into the internal controls and financial performance of some savings and credit cooperatives in Moyo district, Uganda.

[12]. However, in Uganda, SACCO performance has not met expectations [5]. To address this, the Ugandan government, in collaboration with the International Fund for Agricultural Development (IFAD), has emphasized the importance of promoting rural finance and financial inclusion as essential components in eradicating poverty. The Project for Financial Inclusion in Rural Areas (PROFIRA), launched in 2013, is a partnership between the Ugandan government and IFAD aimed at helping SACCOs become financially sustainable and robust organizations [13]. Moreover, the government established the Microfinance Support Centre to offer SACCOs more affordable funding options (AMFIU report, 2017/2018), and enacted the Tier 4 Microfinance and Money Lenders Act 2016 to regulate SACCO operations (AMFIU report, 2017/2018). Despite these initiatives, the portfolio at risk for many SACCOs increased from 87% to 90% between 2015 and 2018, significantly above the acceptable standard of less than 10%. Concurrently, the coverage risk ratio decreased from 39% to 28%, indicating a deteriorating situation. Although various efforts have been made by the Ugandan government and stakeholders to improve SACCO governance and management, the overall performance of the SACCO sub-sector has remained suboptimal [14]. Reports from the Microfinance Support Centre between 2018 and 2020 indicate a continued decline in SACCO performance, with further reductions in coverage risk ratio, portfolio at risk, and profitability from 2015 to 2020. This trend highlights the need to identify and address the underlying causes to prevent further financial difficulties in the SACCO sector. In Moyo district, only 4 out of the 10 fully registered SACCOs that operated between 2012 and 2021 remain functional, primarily due to inadequate internal control mechanisms [15]. Without a thorough understanding and resolution of these challenges, the SACCO sub-sector is at risk of further decline. This study aims to examine the impact of internal controls

on the financial performance of selected SACCOs in

Moyo district, Uganda.

METHODOLOGY

A cross-sectional research design was chosen for this study because data was collected at a single point in time and a descriptive research method was used to analyze the relationship between the two variables. The study population consisted of all registered SACCOs in Moyo district that operated between 2012 and 2021. The target population included personnel with knowledge of internal control and financial performance from all SACCOs that remained operational by 2021. The unit of

observation focused on members of the Audit and Supervisory Committees (SUPCO), General Managers, Branch Managers, Accountants, Credit Officers, and Cashiers. Four departments—SUPCO, Finance, Credit, and Administration—were selected for each SACCO using a purposive sampling technique. To complement secondary data through triangulation, primary data was collected from respondents using questionnaires and interviews.

RESULTS

Table 1: Respondents responses on the frequency of review of SACCO internal control systems

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	After 5 years	9	18.0	18.0	18.0
	Annually	15	30.0	30.0	48.0
	Half-yearly	11	22.0	22.0	70.0
	Other (Specify)	15	30.0	30.0	100.0
	Total	50	100.0	100.0	

Source: Primary Data, 2023

The findings presented in Table 1 revealed that the most frequent response, given by 30.0% of respondents, is that SACCOs review their internal control systems annually. This indicates that a notable number of SACCOs have implemented an annual review process, reflecting a commitment to regular evaluation of their internal controls. Additionally, 22.0% of respondents indicated that

SACCOs conduct these reviews on a semi-annual basis, suggesting a more frequent assessment compared to annual reviews. Furthermore, the "Other (Specify)" category, also noted by 30.0% of respondents, implies that some SACCOs adhere to review schedules that are not specifically listed in the options provided.

Table 2: Respondents' responses on the rating internal control systems in relation to revenue generation

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Very ineffective	12	24.0	24.0	24.0
	Ineffective	6	12.0	12.0	36.0
	Uncertain	6	12.0	12.0	48.0
	Effective	26	52.0	52.0	100.0
	Total	50	100.0	100.0	

Source: Primary Data, 2023

The results presented in table 4.10 revealed that, a quarter of the respondents (24.0%) rated their organization's internal control system as "very ineffective" concerning revenue generation. This suggests a significant level of dissatisfaction or concern about the system's performance in

safeguarding revenue. A smaller percentage (12.0%) of respondents perceived the internal control system as "ineffective." This indicates a degree of dissatisfaction but not as severe as those who rated it as "very ineffective."

Table 3: Respondents' responses on the descriptive statistics for risk assessment

Risk Assessment	Mean	Std. Dev	Interpretation
Management has defined appropriate objectives for the SACCO	3.90	.931	Satisfactory
Management has identified risks that affect achievement of the SACCO objectives	3.86	.926	Satisfactory
Management has a criterion for identification of which risks to the SACCO are most critical	3.68	.891	Satisfactory
Management has put in place mechanisms for mitigation of critical risks that may lead to SACCO's loss	3.86	.729	Satisfactory
There is frequent escalation and reporting of SACCO's departmental risks to the management to assist in solving early enough before it develops to loss	3.22	1.036	Satisfactory
All instructions received from the SACCO clients are thoroughly scrutinized (e.g. Signature verification) before execution to prevent processing fraudulent transactions	3.90	.974	Satisfactory
The SACCO invests in its risk management	3.54	.930	Satisfactory
Management provides feedback to the junior officers about the SACCO's risk exposures	3.44	1.29	Satisfactory
AVERAGE MEAN AND STD. DEVIATION	4.20	0.84	
Valid N (listwise)			

Source: Primary Data, 2023

The findings in table 3 indicated that management has defined appropriate objectives for the SACCO (Mean: 3.90, Std. Dev: 0.931): Respondents viewed the definition of appropriate objectives by management positively, with a mean rating of 3.90, categorizing it as "Satisfactory." Management has identified risks that affect the achievement of the SACCO objectives (Mean: 3.86, Std. Dev: 0.926): The identification of risks by management is also rated as "Satisfactory," with a mean score of 3.86. Management has a criterion for identification of which risks to the SACCO are most critical (Mean: 3.68, Std. Dev: 0.891): Respondents view management's criterion for identifying critical risks as "Satisfactory," with a mean score of 3.68. Management has put in place mechanisms for the mitigation of critical risks that may lead to SACCO's loss (Mean: 3.86, Std. Dev: 0.729): The presence of mechanisms for mitigating critical risks is rated as "Satisfactory," with a mean rating of 3.86. There is frequent escalation and reporting of SACCO's departmental risks to the management to assist in

solving early enough before it develops to loss (Mean: 3.22, Std. Dev: 1.036 - Satisfactory): Respondents perceived the escalation and reporting of risks as "Satisfactory," but the relatively high standard deviation of 1.036 suggests some variability in responses. All instructions received from the SACCO clients are thoroughly scrutinized (e.g. Signature verification) before execution to prevent processing fraudulent transactions (Mean: 3.90, Std. Dev: 0.974): The thorough scrutiny of client instructions is considered "Satisfactory" with a mean rating of 3.90. The SACCO invests in its risk management (Mean: 3.54, Std. Dev: 0.930): Investment in risk management is perceived positively, with a mean score of 3.54, categorizing it as "Satisfactory." Management provides feedback to the junior officers about the SACCO's risk exposures (Mean: 3.44, Std. Dev: 1.29): The provision of feedback by management about risk exposures is considered "Satisfactory," but the higher standard deviation of 1.29 suggests more variability in responses. The overall perception of risk assessment activities within the SACCO is favorable,

with an average mean score of 4.20 and a standard deviation of 0.84. This suggests that respondents generally view risk assessment practices as "Satisfactory." The above results indicate that respondents perceive risk assessment practices within the SACCO as satisfactory, with a generally positive outlook. However, there is some variability in perceptions, particularly regarding the escalation and

reporting of departmental risks and the provision of feedback about risk exposures to junior officers.

Also, the researcher asked the key interview informants about the Risk Assessment at the SACCO. The question posed was: "How best can we reduce exposure to risks in SACCOs?" The responses were summarized as below:

Interview 1

"..... Conduct standard and comprehensive hazard appraisals to distinguish potential dangers. This incorporates credit hazard, operational hazard, liquidity hazard, and showcase chance. Understanding the particular dangers confronted by the SACCO is the primary step in mitigation....."

Interview II

"..... Reinforce the administration structure inside the SACCO. Guarantee that the board of executives and senior administration are well-versed in hazard administration standards and hones. Their administration sets the tone for chance management....."

Interview III

".....Avoid over-concentration of administrations or speculations in a single zone. Broadening the SACCO's offerings can spread hazard over distinctive divisions and decrease dependence on a single income stream"

Interview IV

".....Implement strict loaning arrangements and due constancy methods. Survey borrowers' financial soundness and set up suitable credit limits. Routinely survey and overhaul loaning rules to adjust to changing financial conditions....."

Interview V

".....Maintain a center on resource quality by checking credit portfolios and distinguishing potential issue credits early. Actualize viable procedures for advance recuperation and collateral management....."

Table 4: Respondents' responses on the descriptive statistics for information and communication

Information and communication	Mean	Std. Dev	Interpretation
Management has identified individuals who are responsible for coordinating the various activities within the SACCO to ensure appropriate communication on internal controls	3.72	.991	Satisfactory
All employees understand the concept and importance of internal controls, including the division of responsibilities	4.10	.735	Satisfactory
Effective communication helps to evaluate how well guidelines and policies of the SACCO are working and being implemented	4.26	.777	Very satisfactory
The reporting system of the SACCO spells out all the responsibilities of each department of the SACCO	4.44	.675	Very satisfactory
AVERAGE MEAN AND STD. DEVIATION	4.13	.7945	
Valid N (listwise)			

Source: Primary Data, 2023

The results from table 4 indicated that management has identified individuals who are responsible for coordinating the various activities within the SACCO

to ensure appropriate communication on internal controls (Mean: 3.72, Std. Dev: 0.991); Respondents view the identification of individuals responsible for

coordination positively, with a mean rating of 3.72, categorizing it as "Satisfactory." However, the standard deviation of 0.991 suggests some variability in responses. All employees understand the concept and importance of internal controls, including the division of responsibilities (Mean: 4.10, Std. Dev: 0.735): The understanding of internal controls by all employees is rated as "Satisfactory," with a mean score of 4.10. Effective communication helps to evaluate how well guidelines and policies of the SACCO are working and being implemented (Mean: 4.26, Std. Dev: 0.777): The role of effective communication in evaluating guidelines and policies is viewed very positively, with a mean rating of 4.26, indicating a "Very Satisfactory" perception. The reporting system of the SACCO spells out all the responsibilities of each department of the SACCO (Mean: 4.44, Std. Dev: 0.675 - Very Satisfactory): Respondents highly commend the SACCO's reporting system for clearly outlining departmental responsibilities, with a mean score of 4.44, categorizing it as "Very Satisfactory." The overall

perception of information and communication practices within the SACCO is favorable, with an average mean score of 4.13 and a standard deviation of 0.7945. This suggests that respondents generally view information and communication practices as satisfactory to very satisfactory. In summary, the table indicates that respondents perceive information and communication practices within the SACCO in a positive light. Effective communication, clear delineation of responsibilities in the reporting system, and the understanding of internal controls among employees are particularly viewed very positively. While some variability exists in perceptions regarding the identification of individuals responsible for coordination, the overall outlook is favorable. The researcher asked the key interview informants about the Information and communication activities. The question posed was: "Is there effective internal control communication and proper flow of information down, across, and up within all the sections of the organization?"

The responses were summarized as below:

Interview 1:

The first interviewee confirmed that; *".....there is generally effective internal control communication within the organization. Information flows downward, across, and upward among different sections, facilitated by established communication channels and protocols. The organization values transparency and open communication, contributing to a culture of trust and accountability....."*

Interview 2:

The second interviewee also noted that; *"..... effective internal control communication within the organization. Information flows smoothly in all directions, enabling timely reporting and feedback. The organization emphasizes training and awareness to ensure employees understand the importance of internal controls and their roles in maintaining them. Employees are encouraged to raise concerns or observations related to controls without fear of reprisals....."*

Interview 3:

The third interviewee affirmed that, *"..... the organization has a proper flow of information regarding internal controls. Communication channels are well-established, and employees are encouraged to actively report control-related matters. The organization has clear documentation and reporting procedures, making it easier for employees to convey control-related information. Additionally, there is a culture of accountability and control-related feedback....."*

Overall, the responses from the key interview informants suggest that the organizations place a strong emphasis on effective internal control communication and information flow. Clear channels, transparency, training, and a culture of accountability

contribute to this positive environment. It appears that the organizations value the input of employees and are proactive in addressing control-related issues and feedback.

Table 5: Respondents' responses on the descriptive statistics for monitoring

Monitoring	Mean	Std. Dev	Interpretation
There are independent process checks and evaluations of controls activities on ongoing basis.	4.04	.533	Satisfactory
Internal reviews of implementation of internal controls in units are conducted periodically.	3.64	.985	Satisfactory
The SACCO makes daily reconciliations on accounts	4.06	.978	Satisfactory
Management has assigned responsibilities for the timely review of audit reports and resolution of any non-compliance items noted in those audit reports	3.86	.969	Satisfactory
Management control method is adequate to investigate unusual activities in the SACCO.	3.90	.995	Satisfactory
AVERAGE MEAN AND STD. DEVIATION	3.90	.892.	
Valid N (listwise)			

Source: Primary Data, 2023

The results presented in table 5 above shows that the overall perception of monitoring activities within the selected SACCOs is favorable with an average mean score of 3.90 and a standard deviation of 0.892. This suggests that respondents generally view monitoring practices as satisfactory. This also was attributed to the fact that majority of the respondents who agreed that, there are independent process checks and evaluations of control activities on an ongoing basis (Mean: 4.04, Std. Dev: 0.533): Respondents view the presence of independent process checks and evaluations positively, with a mean rating of 4.04, categorizing it as "Satisfactory." Internal reviews of the implementation of internal controls in units are conducted periodically (Mean: 3.64, Std. Dev: 0.985 - Satisfactory): The periodic internal reviews of control implementation are rated as "Satisfactory," with a mean score of 3.64. The SACCOs make daily reconciliations on accounts (Mean: 4.06, Std. Dev: 0.978 - Satisfactory): Respondents view the daily reconciliation of accounts positively, with a mean rating of 4.06, categorizing it as "Satisfactory." Management has assigned responsibilities for the timely review of audit reports and resolution of any non-compliance items noted in those audit reports (Mean: 3.86, Std. Dev: 0.969 - Satisfactory): The assignment of responsibilities for audit report review and resolution is considered "Satisfactory," with a mean score of 3.86. Management control method is adequate to investigate unusual activities in the SACCO (Mean: 3.90, Std. Dev: 0.995 - Satisfactory): Respondents perceived the adequacy of management control methods for investigating unusual activities as "Satisfactory," with a mean rating of 3.90. The researcher asked the key interview informants about the proper mechanisms put in place to monitor the quality of internal control structure in the selected SACCOs over time. The question posed was: "Are there proper mechanisms put in place to monitor the quality of internal control structure in the SACCO over time?" The responses from key interview informants regarding the mechanisms in place to monitor the quality of the internal control structure in the SACCOs over time are summarized as follows:

Interview 1:

".....The witness expressed that the SACCO has actualized legitimate components to screen the quality of its inside control structure over time. There are normal inside reviews conducted by qualified experts who survey the adequacy of inner controls. Moreover, the SACCO locks in outside evaluators occasionally to supply an free assessment of the control structure. The comes about of these reviews are utilized to distinguish shortcomings and ranges for enhancement, and remedial activities are taken accordingly....."

Interview 2:

"..... This witness affirmed that the SACCO has set up components for checking the quality of its inside control structure. Standard inner surveys and assessments are conducted to assess the ampleness and adequacy of controls. The SACCO also conducts chance evaluations to recognize potential vulnerabilities within the control structure. Input from workers and individuals is empowered and considered within the checking handle. The witness emphasized that the SACCO is committed to nonstop change in its control environment....."

Interview 3:

“..... The third witness concurred that the SACCO has legitimate instruments in put to screen the quality of its inside control structure over time. Inner control assessments are conducted at standard interims to evaluate compliance with approaches and methods. The SACCO keeps up a hazard enlist to distinguish developing dangers and vulnerabilities. Moreover, outside inspectors are locked in to supply an objective evaluation of controls. The source famous that the SACCO's commitment to continuous checking contributes to the upkeep of a robust control structure.....”

Overall, the responses from the key interview informants indicate that the selected SACCOs have established effective mechanisms to monitor the quality of their internal control structure over time. These mechanisms include internal and external

audits, risk assessments, and a commitment to continuous improvement. The selected SACCOs place importance on staying proactive in identifying and addressing control-related issues to ensure the ongoing strength of its control environment.

Table 6: Respondents' responses on the descriptive statistics on financial performance

Financial Performance	Mean	Std. Dev	Interpretation
The SACCO has enough cash and cash equivalent to Interview the day to day operations	3.38	1.398	Satisfactory
The SACCO maintains at least 15% of its assets in liquid form to Interview immediate obligations	3.94	.867	Satisfactory
The SACCO's profitability has been increasing steadily for the past ten years	3.42	1.263	Satisfactory
The SACCO has put in place measures to minimize costs in order to earn more profits	4.04	.638	Satisfactory
The asset base of the SACCO has been increasing steadily for the past ten years	3.98	.937	Satisfactory
AVERAGE MEAN AND STD. DEVIATION	3.752	0.8206	
Valid N (listwise)			

Source: Field Data 2023

Table 7 presents the descriptive statistics on financial performance of the selected SACCOs based on various indicators. Thus, most of the respondents strongly agreed that the selected SACCOs have enough cash and cash equivalent to Interview their day-to-day operations (Mean: 3.38, Std. Dev: 1.398 - Satisfactory): The average mean score of 3.38 suggests that, on average, respondents perceive that the selected SACCOs have enough cash and cash equivalents to Interview their day-to-day operational needs. However, the relatively high standard deviation of 1.398 indicates some variability in responses, suggesting that some respondents may have differing opinions about the sufficiency of cash reserves. The selected SACCOs maintain at least 15% of their assets in liquid form to Interview immediate obligations (Mean: 3.94, Std. Dev: 0.867 - Satisfactory): The mean score of 3.94 indicates that respondents perceive that the selected SACCOs maintain an adequate level of liquid assets to Interview immediate obligations, which is considered

satisfactory. The relatively low standard deviation of 0.867 suggests a more consistent perception among respondents on this aspect. The selected SACCOs profitability have been increasing steadily for the past ten years (Mean: 3.42, Std. Dev: 1.263 - Satisfactory): Respondents view the selected SACCOs' profitability positively, with an average rating of 3.42, categorizing it as "Satisfactory." However, the standard deviation of 1.263 suggests some variability in responses, indicating that opinions on the profitability trend may vary among respondents. The selected SACCOs have put in place measures to minimize costs in order to earn more profits (Mean: 4.04, Std. Dev: 0.638 - Satisfactory): The mean score of 4.04 suggests that respondents believe the selected SACCOs have implemented measures to minimize costs effectively, which is considered satisfactory. The relatively low standard deviation of 0.638 indicates a more consistent perception among respondents regarding cost management. The asset base of the selected SACCOs have been increasing steadily for

the past ten years (Mean: 3.98, Std. Dev: 0.937 - Satisfactory): The mean score of 3.98 indicates that respondents perceive the selected SACCOs' asset base as steadily increasing, which is considered satisfactory. The standard deviation of 0.937 suggests a relatively consistent perception among respondents on this aspect. In summary, based on the descriptive statistics, respondents generally view the financial performance of the selected SACCOs positively, with most indicators categorized as "Satisfactory." However, it's important to note some variability in

responses, particularly in measures related to cash reserves and profitability trends. The selected SACCOs' efforts in cost management and asset growth are generally well-received by respondents. Furthermore, the researcher asked the key interview informants of the procedures put in place to control the level of nonperforming loans. The question posed was: "Are there procedures put in place to control the level of nonperforming loans?" The responses were summarized as below:

Interview 1:

"The informant confirmed that the SACCO has established procedures to control the level of nonperforming loans. These procedures include a thorough credit risk assessment process before granting loans. The SACCO regularly reviews the creditworthiness of borrowers and ensures that delinquent loans are promptly identified and addressed. Efforts are made to work with borrowers facing financial difficulties to find suitable repayment solutions. The SACCO also maintains a provision for bad debts to cover potential losses".

Interview 2:

"This informant also affirmed that the SACCO has procedures in place to control nonperforming loans. The SACCO emphasizes responsible lending practices and conducts due diligence on borrowers. Monitoring of loan portfolios is a routine practice, and early warning systems are utilized to identify potential problem loans. The SACCO has a clear policy for loan recovery and employs strategies such as loan restructuring and collateral realization when necessary".

Interview 3:

"The third informant concurred that the SACCO has implemented procedures to manage nonperforming loans effectively. Credit risk assessments are conducted, and credit limits are set based on borrowers' repayment capacity. The SACCO maintains a credit committee responsible for loan approvals, and regular loan reviews are conducted. For delinquent loans, the SACCO follows a defined process for collections, including legal action if necessary".

Interview 4:

".....much as they were carrying out monitoring of the internal controls but they were not giving out the feedback to their employees because they thought was not important.....".

Interview 5:

".....SACCOs have objectives set and followed but sometimes they fail to achieve them due to stringent government policies concerning management of cooperatives like on borrowing for nonmembers and amount of money to be borrowed are restricted to the number of shares and this limits them from getting a lot of clients for loans....."

Overall, the responses from the key interview informants indicate that the selected SACCOs have put in place procedures to control the level of nonperforming loans. These procedures encompass responsible lending practices, credit risk assessments, loan monitoring, and a clear framework for loan recovery. The SACCOs appear committed to managing credit risk and minimizing nonperforming loans to maintain financial stability.

DISCUSSION OF FINDINGS

An increase in risk assessment is linked to improved financial performance, with the model explaining about 28.1% of the variance in financial performance. This finding is supported by Kariuku[16], who studied the impact of credit risk management on the financial performance of Harambee SACCOs. Specifically, Kariuku highlighted that modern credit risk monitoring and control methods, such as the use of guarantors, insurance, and collateralization strategies, improve SACCOs' financial performance by managing loan default risk. Additionally, the study revealed that computer-based monitoring techniques help quickly detect overdue loans, thereby reducing credit risk and enhancing financial growth for the selected SACCOs. The study also found a significant relationship between risk assessment and financial performance of the selected SACCOs in Moyo district, with a correlation coefficient (R) of 0.530.

This value indicates a moderate to strong positive linear relationship between risk assessment and financial performance. Kamau (2014) similarly emphasized the importance of evaluating internal and external risks to identify potential financial losses, advocating for strong risk assessment mechanisms, client assessments before loan issuance, and identifying risks associated with different policies prior to implementation. Moreover, the findings revealed a low p-value ($p < 0.001$), suggesting that the regression model is statistically significant and that risk assessment has a notable effect on financial performance. The coefficient of the independent variable (0.544) indicates the change in financial performance for a one-unit change in risk assessment. The standardized coefficient (Beta) of 0.530 signifies the strength and direction of the relationship between risk assessment and financial performance, showing

that increased risk assessment correlates with improved financial performance. Asllanaj[17] concurs that financial performance in financial institutions is related to credit and insolvency risks. This finding aligns with Deng, Rono, and Sang[18], who assert a relationship between risk assessment and financial performance in financial institutions, and with Sewanyina, Manyange, and Mary[19], who *“Implement strict lending policies and due diligence procedures. Assess borrowers' creditworthiness and establish appropriate credit limits. Regularly review and update lending guidelines to adapt to changing economic conditions to avoid risks in my organization”*

This was in line with Hussain, Khan and Zianab[20] who disagreed with the statement and revealed that internal control requires that all pertinent information be identified, captured, and communicated in a form and time frame that enable people to carry out their financial reporting responsibilities, and that firms should adopt internal control and information systems that produce operational, financial and compliance related *“much as they were carrying out monitoring of the internal controls but they were not giving out the feedback to their employees because they thought was not important”*. Another interviewee maintained that *“SACCOs have objectives set and followed but sometimes they fail to achieve them due to stringent government policies concerning management of cooperatives like on borrowing by nonmembers and amount of money to be borrowed are restricted to the number of shares and this limits them from getting a lot of clients for loans”*

The significance of monitoring internal control systems is emphasized by Kumari et al. [22], who argue that regular monitoring is vital for assessing the efficiency and effectiveness of organizational activities. Amudo and Inanga [23] further assert that proper monitoring ensures the smooth functioning of control systems. One approach to monitoring is appointing an external auditor to independently oversee and report on client activities. Implementing monitoring components in both corporate and

maintain that effective risk management, including assessment, enhances returns for SACCO owners. Results from interviews also indicate that SACCOs had a strong risk assessment system in place, management and employees were the ones in charge of assessing the risks where one interviewee revealed that

information reports to make it possible to run and control the business. Relevant, timely information and effective channels of communication are an integral part of an internal control system[21]. Results from the interviews showed that the selected SACCOs in Moyo district had a well-built accounting and financial systems, employees were ethical and they were also carrying out monitoring. One of the interviewees indicated that

cooperative boards is crucial for monitoring management performance, formulating long-term strategic plans, evaluating management proposals, and observing financial and strategic actions. However, a significant challenge faced by many SACCOs is the failure of audits to identify and report existing weaknesses. Unreported problems remain unresolved, preventing management from addressing these challenges.

CONCLUSION AND RECOMMENDATIONS

Internal controls are the pillar of any financial institution and SACCOs are not excluded and good financial performance is the motive for having good internal controls implemented in the SACCOs. In spite of the role played by internal controls, SACCOs have continued to face challenges relating to liquidity, profitability, efficiency; in terms of cost per borrower, and alleged malpractices. The above challenges could be attributed to weak internal control system, as this sets a base for misappropriation of organization's resources. It is on this note that the study calls for the implementation of a systematic risk assessment process that identifies, assesses, and mitigates risks. Regularly update risk assessments to adapt to changing circumstances. More so, there is need to maintain effective internal control communication and proper flow of information down, across, and up

within all sections of the organization. This includes clear communication of roles and responsibilities. Invest in continuous training and education for SACCO staff and members to ensure they have a strong understanding of internal controls, ethics, and risk management. Develop and regularly update comprehensive policies and procedures that clearly outline internal control processes, responsibilities, and expectations. This can serve as a guide for staff and members and ensure consistency in control activities. Finally, there is urgent need to focus on enhancing monitoring activities to identify and address issues promptly. This may involve strengthening internal control methods to investigate unusual activities, ensuring timely review of audit reports, and conducting periodic evaluations of control activities.

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